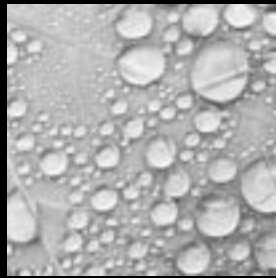


# Grace Period Q&A



IRS Revenue Notice 2005-42 was approved in May 2005. This notice permits a grace period of 2 months and 15 days immediately following the end of each plan year during which unused contributions into your medical flexible spending account may be reimbursed for qualified expenses incurred during the grace period.

This means for example, since your employer's flexible spending account plan year ends on December 31, 2005, you may incur qualified expenses up to March 15, 2006, and use any unspent funds from your 2005 plan year account.

The grace period should not be confused with the run-out period which is the period during which you may submit claims for reimbursement out of your prior plan year's account. Your employer's new run-out period ends on March 31, 2006. This means that you will have until March 31, 2006, to submit claims for reimbursement for expenses for the 2005 Plan Year. Again, you then have until March 31, 2006, to submit your claim(s) for reimbursement.

The following are some basic questions and answers to help you understand how this Revenue Notice may affect your flexible spending account.

**Q. How does the Revenue Notice affect my medical FSA?**

- A. The IRS Revenue Notice allows you to incur qualified medical expenses for the current plan year until March 15 of the following year, and to be reimbursed with unspent funds from your prior plan year account. For example, if on January 1, 2006, you have money left in your prior plan year account; you can incur expenses up until March 15, 2006. These expenses will be paid until your prior plan year's account has been exhausted.

**Q. What is a grace period?**

- A. A grace period is the two months and fifteen days immediately following the end of the plan year, in which you or your qualified dependent can incur qualified expenses and use any unspent funds from prior plan year account funds. Your employer's grace period is January 1 through March 15.

**Q. What is a run-out period?**

- A. A run-out period is the period of time in which a participant has to submit claims for reimbursement out of the prior plan year's account. Your employer's run-out period is January 1 through March 31.

**Q. What happens to my claims during the grace period if I have a FSA Account for the previous and current year?**

- A. Claims will be paid in the order in which they are received. If you have an account balance in your prior plan year's account, and a claim is received with a date of service during the grace period, the expense will be paid from your prior plan year's account. If a claim is received at a later date, with a date of service in the prior plan year, and all funds have been paid from your prior plan year account, the claim will not be paid.

For this reason, it is important to file claims as soon as your expenses have been incurred. This will help to assure that you maximize the use of your accounts for both plan years.

**Q. Can I tell you which plan year I want my claims to be paid from?**

- A. Claims will be paid in the order in which they are received. You may not request for a claim to be paid from a specific plan year. However, you can control the order in which you submit or file your claims. Always make sure that you file older claims first to ensure that funds are paid from the previous plan year first.

**Q. How does this change affect the use of my EZ REIMBURSE® Card?**

- A. Expenses will be paid in the order in which they are incurred. If you have an account balance in your prior plan year's account, an EZ REIMBURSE® Card transaction will be applied against the previous year's balance.

**Q. How should I calculate my future annual contributions for my flexible spending accounts?**

- A. You should continue to use only twelve months of expenses for calculating expenses for your flexible spending accounts. The new Revenue Ruling is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

**Q. What happens if I do not submit my reimbursement claim for the prior plan year by March 31, 2006?**

- A. If a reimbursement request is not submitted by the March 31, 2006, deadline funds will be forfeited.

**Example: First In First Out Paper Claim**

Your 2005 Medical Spending Account balance is \$100 and your 2006 Medical Spending Account balance is \$ 1,000. You incur a \$ 50.00 medical expense on 1/15/2006 and submit a paper claim on 1/20/2006. The claim will be paid out of your 2005 account leaving a balance of \$ 50.00 in your 2005 account and a balance of \$ 1,000 in your 2006 account.

**Example 2: First-In-First-Out EZ REIMBURSE® Card and Run-Out Claim**

Your 2005 Medical Spending Account balance is \$100 and your 2006 Medical Spending Account is \$ 1000. You swipe your EZ REIMBURSE® Card for a \$ 150.00 medical expense on 1/3/2006. The system will automatically split the payment. \$ 100 will be paid out of your 2005 account and \$50 will be paid out of your 2006 account. Your balance will then be \$0 in your 2005 account and \$950 in your 2006 account.